

LANTERMAN DEVELOPMENT CENTER DUE DILIGENCE ANALYSIS

# CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

JUNE 2017

SUMMARY OF FINDINGS



## PREFACE

California State Polytechnic University, Pomona (“CPP” or the “University”) contracted a team of planning experts led by HOK (the “HOK Team”) to conduct a Due Diligence Analysis (the “Analysis”) on the potential for developing the former Lanterman Development Center (the “Site”) into a long-term academic and financial resource for the University. Brailsford & Dunlavey, Inc. (“B&D”) assisted the University as owner’s representative during the Analysis.

The approximately 300-acre parcel of land known as the Lanterman Development Center is located approximately one mile from the main campus of Cal Poly. Formerly operating as a residential healthcare facility, the Lanterman Development Center contains 131 buildings and structures, totaling over one million square feet. The Center ceased operation in 2015 and Cal Poly acquired Lanterman from the State of California.

In order to compete the Due Diligence Analysis, the HOK Team completed a series of detailed Site, market, and financial analyses to understand the potential development options including:

- ◆ A detailed site analysis including existing conditions, topography, climate, geotechnical, and landscaping;
- ◆ A building condition assessment of the 131 buildings and structures on the Site;
- ◆ A transportation and circulation analysis of the Site and surrounding areas;
- ◆ A historic preservation analysis connected to the four listed structures and building contributing to an identified historic district;

- ◆ A review of case studies of similar university projects;
- ◆ An analysis of the external market demand and conditions related to office, retail, flex / R&D, residential, and hospitality market sectors; and,
- ◆ An analysis of potential funding sources and financing mechanisms for potential development.

This summary of findings document contains an overview of key information from the HOK Team including direct language and data from Due Diligence Report dated April 4, 2017.

Brailsford & Dunlavy wishes to acknowledge the support and contributions of all of the individuals involved in the project. The Project Team was comprised of the following individuals:

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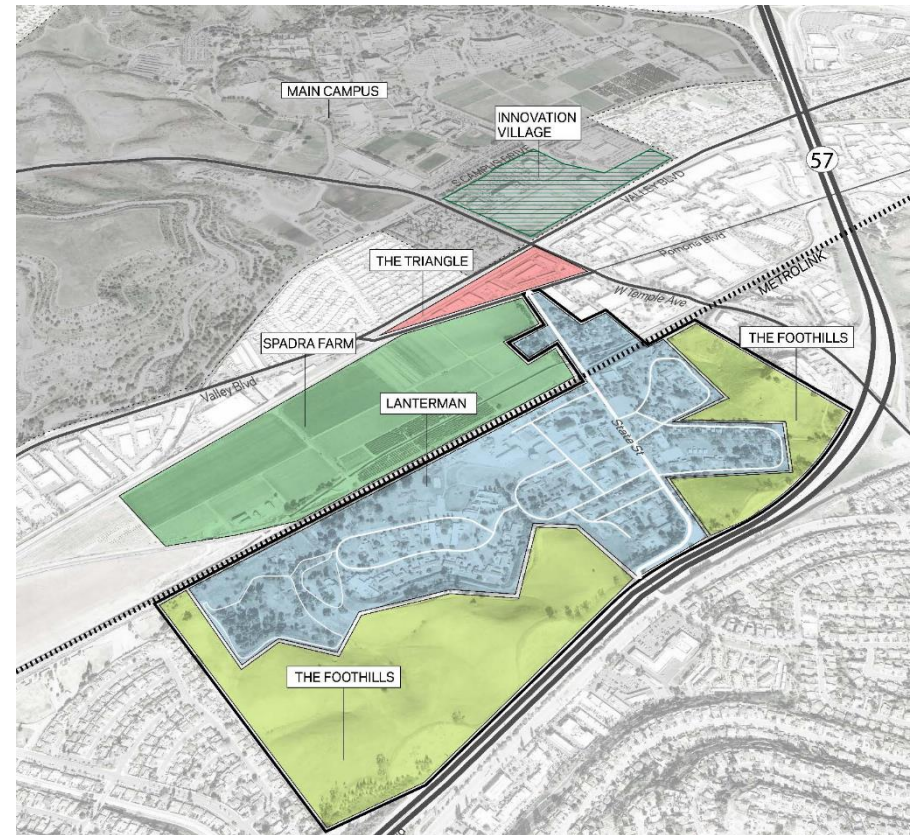


FIGURE 1: LANTERMAN DEVELOPMENT CENTER SITE AND CAL POLY POMONA



## SUMMARY OF FINDINGS

The Lanterman Development Center exists in a natural and built environment that offers both opportunities and constraints to development. The Site's natural features (topography, plant materials, microclimate) and built features (historic districts, historic buildings and landscapes, existing roads) all influence the design decisions that are intended to enhance human comfort and conserve energy and resources while providing mission supporting development opportunities for Cal Poly Pomona. In general, the existing building framework and envelopes are in sound condition providing opportunities for reuse of existing structures.

The Site has the potential for revitalization to include University related or connected programs in a way that complements and is consistent with the local community. Integrating the Site into its context, breaking down the institutional qualities, and making the Site a part of the larger community, will support highest and best utilization while improving connections to the broader community.

Preserving the Site's historic structures and using them as a foundation for a new community and to establish the appropriate scale of new development can enhance the sense of place at Cal Poly Pomona, anchor the Site in its prominent place in California history and bridge the needs of students and the community at large.

The ability to achieve these opportunities will depend on the University's ability to come together behind a compelling shared vision to frame the larger opportunity and support coordinated action.

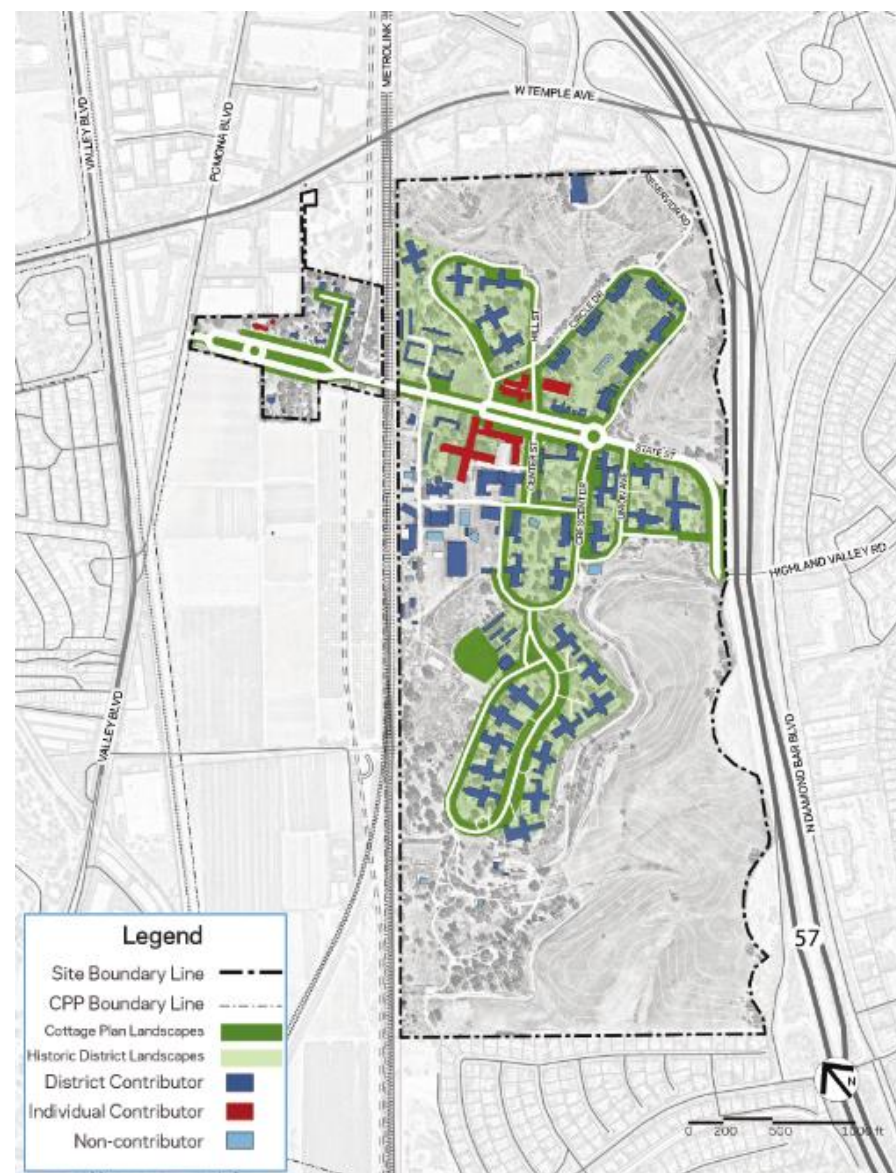


FIGURE 2: LANTERMAN DEVELOPMENT CENTER SITE PLAN RELATED TO HISTORIC DISTRICT

## SITE CONSIDERATIONS

One of the key considerations of the Site is its long operation as a residential health care facility. Originally named the Pacific Colony Hospital, the Lanterman Development Center's architectural and historic significance stretches from 1927 to 1969. The Site, now determined to be eligible as the Pacific Colony State Hospital Historic District as defined by the Department of the Interior Secretary of the Interior's Standards, includes ninety-three eligible district contributors as well as four individually listed eligible buildings (Figure 2). The opportunities for reuse of the existing buildings, discrete additions and compatible new construction are all within acceptable guidelines for the evolution of the property. Initial recommendations from the HOK Team identified that approximately 80% of existing structures may need to remain to maintain the Historic District; however, potential exists to maintain the qualities of the Historic District with a greater portion of new development through a compelling vision for the Site's development. For the purposes of this analysis, the more conservative assumption was used.

Based on the analysis of existing structures, historical review, climate, topography, terrain, landscaping, liquefaction zones, flood plains, and other detailed analyses, the HOK Team identified specific developable zones (Figure 3). Zone 1 represents the easiest land to develop, primarily concentrated on the western portion of the Site. Most of the existing structures are within this zone, with the potential structures to remain and be repurposed identified in black. Given the likely constraints of the Site, and remaining conservative relative to the Historic District requirements, the HOK Team estimated a potential 90 acres could be developed into approximately 3.75 million gross square feet ("GSF") of new buildings. Nearly 500,000 GSF of existing structures could be repurposed. Zones 2 and 3 represent areas that could be developed although at significant cost due to lack of infrastructure and topography.

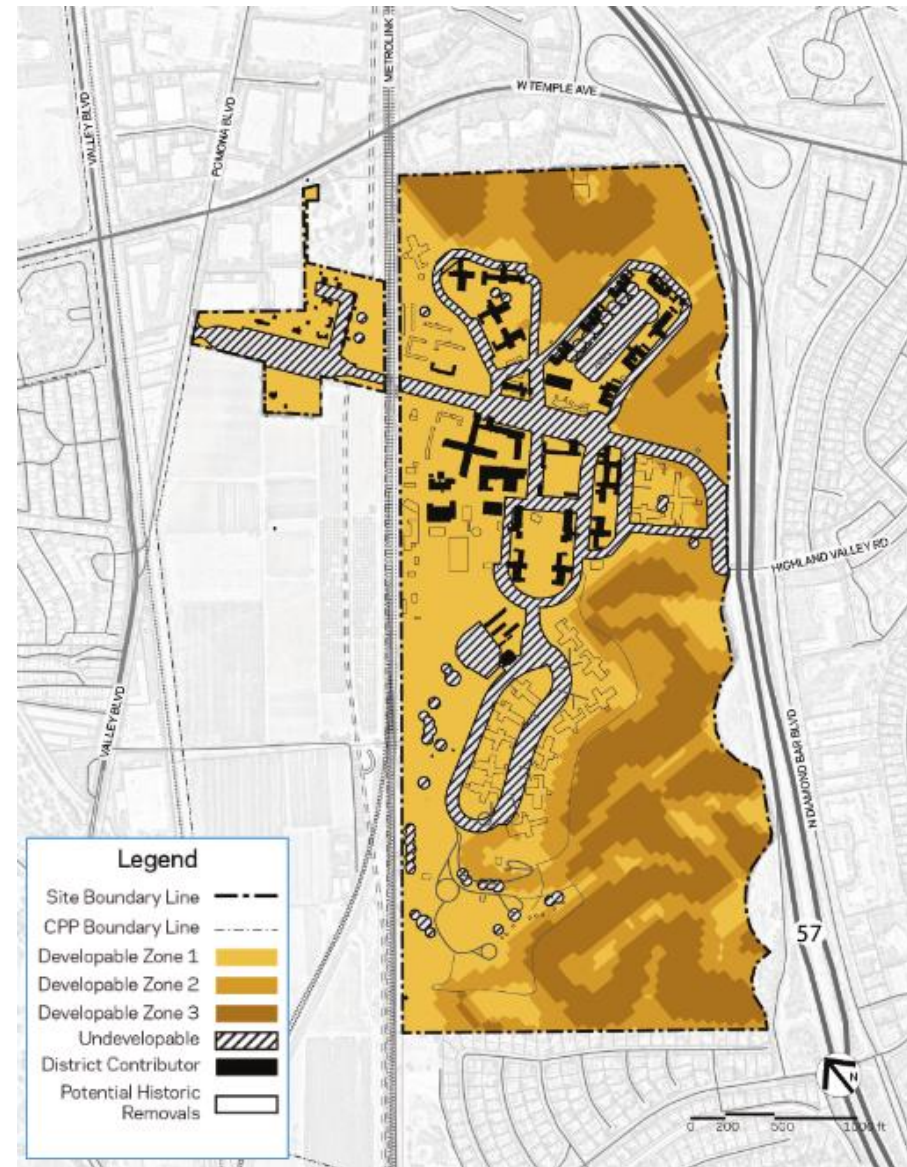


FIGURE 3: DEVELOPABLE AREAS OF THE SITE

Successful development of the Site will require aggressive transportation and parking demand management strategies. The Site currently has two access points to local streets which are not sized appropriately for large scale developments. Local intersections surrounding the Site are currently impacted and would require mitigation measures. Any development should seek to decrease the reliance on personal automobiles and improve connectivity with the surrounding communities. Internal circulation systems must be designed to accommodate all transport modes (i.e., walking, bicycling, vehicular, and transit/shuttle service). Further, as part of a larger overall master planning process for the CPP campus, it is recommended that CPP engage regional transit providers and transportation planning agencies to investigate options for providing greater transit connectivity near the campus and Site to supplement current CPP shuttle service in the vicinity.

The Site presents a unique opportunity to connect to regional rail transit via the adjacent Metrolink corridor. While the feasibility of a Metrolink station was not evaluated, the University is interested in continued dialogue with local decision makers to evaluate this opportunity. Future development should investigate opportunities to connect the Site with regional transit systems.

## MARKET DEMAND

The HOK Team evaluated a number of external market segments in order to evaluate the viability of potential revenue streams. The analysis focused on the market within the San Gabriel Valley and did not include internally generated demand from the University or a larger demand market for spaces associated with universities; therefore, the market analysis can be viewed as conservative related to the potential opportunities to redevelop the Site. The four market segments and associated demand included office / flex, retail, hospitality, and residential (Figure 4). Flex has both the characteristics of office and R&D. These type of buildings that are differentiated from mid-or high-rise office and industrial warehouse. Further, the Flex/R&D designation includes the spectrum from Class A space which is typically built out as office or laboratory, as well as B and C space which is more industrial/workshop in nature. Demand was projected over the next five to eight years, representing local market capacity for initial developments on the Site. Residential development presents the greatest opportunity for development given the overall shortage and high costs of housing within the southern California market, and this market segment will likely represent one of the key components of development to generate revenue.

Market Segment	Demand GSF	Demand Units	Demand Beds
Office / Flex (R&D) Space	265,000		
Hospitality (Full Service)			62
Market Residential <sup>1</sup>		6,718	
Student Residential		1,340	
Faculty / Staff Residential		665	
Retail <sup>2</sup>	50,000		
Total <sup>3</sup> :	315,000	8,723	62

1: Residential Demand Projected through 2030

2: Retail Demand Projected from New Site Users and Development Only

3: Assuming 900 GSF per Unit, Demand is Approximately 7.85M GSF

FIGURE 4: DEMAND PROJECTIONS



## LAND USE CONCEPT TESTING

A series of land use concepts were developed to understand the feasibility and potential residual value. Concepts included maximizing residential development, flex development, and maximizing total land use (Figures 5 and 6). The concepts also includes GSF allocations and incurred costs for development of academic facilities on the Site. Specific academic and University functions were not identified as a component of this Analysis but represent the directive to connect the Site with the academic mission of CPP.

Concept 1: Flex + Housing



FIGURE 5: LAND USE CONCEPT DIAGRAMS

Concept 2: Max Academic



Concept 3: Max Site Use



Concept 4: Max Flex



FIGURE 6: LAND USE CONCEPT DIAGRAMS

An associated development budget and pro forma were developed for each of the concepts (phasing of development was not included within the analysis and may impact projections). Development of the Site anticipated between \$80M and \$90M for each concept. Academic spaces were modeled as non-revenue generating. All other land uses generated revenue for the project to cover the development costs and generate value. Costs for new construction and adaptive reuse of existing facilities were included within the analysis.

In the concepts developed, gaps between site capacity and demand exist in certain market segments (flex space for example). The University believes that these gaps can be addressed from a compelling positioning of the Site which would draw demand from outside of the San Gabriel Valley (the area analyzed by the HOK Team). All of the modeling shown below assumes that the land use allocations would be fully occupied and generating revenue.

Residential development presents the greatest return on investment with the residential heavy concepts creating the greatest residual value. The maximum use of the Site and corresponding maximum development of residential units generates an estimated residual value of \$320M compared to a focus on academic space of \$20M. The concepts that create a greater blend of spaces between academic, flex, and residential would establish a stronger community and mix of uses which is more desirable by the University.

Land Uses (GSF)	Concept 1 Flex & Housing	Concept 2 Max Academic	Concept 3 Max Site Use	Concept 4 Max Flex
Flex	681,000	609,000	0	1,134,545
Residential	2,420,000	1,820,000	4,026,000	1,931,000
Academic	110,000	259,000	181,000	110,000
Retail and Community	67,000	67,000	67,000	67,000
Hotel	11,200	87,500	11,200	11,200
Total:	3,289,200	2,842,500	4,285,200	3,253,745
Estimated Residual Value:	\$160M	\$20M	\$320M	\$100M

FIGURE 7: LAND USE COMPONENTS AND RESIDUAL VALUE

PHASES OF DEVELOPMENT

Although a development phasing analysis was not completed by the HOK Team, the University identified potential short-term revenue opportunities which could reduce the operating burden of the Site and likely serve as initial funding for the first phase of development. The Site is currently utilized as a filming location throughout the year. Adaptive reuse of several buildings for the short-term could expand that filming revenue with minimal investment from the University. Additionally, the market may exist for flex space in several of the existing structures minimizing initial investment in the Site. Potentially, these types of uses could occur prior to engagement with any developer for the Site.

Cal Poly Pomona views the Site as a long-term development and asset for the University. The overall phasing of the development will be critical to the success of the project. It is likely that higher revenue generating land uses such as housing may be part of the initial development to offset site development costs; however, short-term development should not negatively impact the long-term potential of the Site. Identifying a development partner who shares the same long-term vision as the University is a critical next step in the process of creating a unique community at the Lanterman Development Center.





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